



The President's Daily Brief

25 August 1973

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PRINCIPAL DEVELOPMENTS

Chilean Army officers appear to be closer than ever to a consensus that the time has come for concerted military pressure to halt the country's political and economic deterioration. They may try to get Allende to agree to a series of demands which would permit him to remain in office before attempting a coup, however. (Page 1)

The presidential election campaign in Argentina is likely to end the tenuous spirit of conciliation that followed Peron's return. (Page 2)

West Germany has registered a record trade surplus for July and its total surplus for 1973 could be 20 percent above last year's. (Page 3)

Notes on the status of the dollar in Europe, and the number of Communist advisers in Syria appear on Page 4.

At Annex, we discuss the deteriorating situation in Chile in greater detail.

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CHILE

Army officers appear to be closer than ever to a consensus that the time has come for concerted military pressure to halt the country's political and economic deterioration. The resignation of General Prats on August 23 has given the discontented army officers relatively more power. Two other generals whom President Allende has counted on for support also resigned yesterday. [REDACTED]

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The situation is clearly propitious for some sort of power play by the military. This does not necessarily mean that an outright coup is imminent. It is likely that the military will first try to get Allende to agree to a series of demands that would permit him to remain as President but require him to alter his policies. At Annex we examine the situation in greater detail.

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ARGENTINA

The campaign for the presidential election next month is likely to end the tenuous spirit of conciliation that followed Peron's return. Radical Party leaders, angry at his apparent duplicity, are launching a tough, partisan race. While they have no chance of winning, the Radicals and other opponents will try to humiliate Peron by keeping his vote below the 49 percent received by his surrogate Campora in the elections last March.

Peron's initial favorable attitude toward a joint ticket with his long-time Radical opponents won widespread acclaim and was hailed as the first step toward ending the long cycle of political and economic crises. After stringing the Radicals along for weeks, Peron abandoned the plan, possibly because Radical leader Balbin wanted more from the deal than Peron was willing to concede.

Beyond Peron's rejection of a national unity slate, the major source of disappointment and concern for many Argentines is Isabel Peron's nomination for the vice presidency. Peron may still have a "master plan" that includes a provision for his succession, but there are increasing rumors that Isabel and Lopez Rega, Peron's ambitious private secretary, are manipulating the ailing leader.

The Peronist youth and leftists in general are particularly critical of the former dictator's "reactionary" inner circle. The opposition will try to exploit this sensitive issue, which already is threatening the unity of the diverse Peronist movement.

Despite growing disenchantment with the shortcomings Peron has exhibited since his return, he probably will receive a comfortable majority in the election. While most of his followers still hope he can pull the country together, Argentina already has lost its best chance in years for political stability--a national unity slate backed by the military.

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WEST GERMANY

After a record surplus for July the overall cumulative trade surplus for this year is almost \$7 billion. It may reach \$11 billion by the end of the year.

The \$7-billion figure represents an increase of almost 60 percent over this time last year and \$11 billion would be a 20-percent increase over the 1972 surplus.

The July surplus reflects continued strong export performance. Exports will probably continue to rise through the rest of the year because of the large number of orders booked by West German industry since last summer. On the other hand, import growth in the first half of 1973 was sluggish, partly because of the effect on prices of the revaluation of the mark early in the year and also because importers refrained from buying foreign goods in anticipation of the revaluation in June. Imports should pick up, however, in the next few months. The government's anti-inflation program is not likely to dampen demand for imported goods until some time next year.

Although the substantial appreciation of the mark against other currencies has not yet begun to affect the volume of West German trade, it is squeezing the profit margin of German exporters and will reduce their competitive position in world markets.

Changes in the Dollar Value of Foreign CurrenciesSince 19 March(in percent)

	24 August	17 August	27 July	11 July	6 July
Mark	+14.7	+14.2	+23.1	+17.6	+25.1
French franc	+ 5.0	+ 5.0	+12.5	+11.6	+19.9
Sterling	- 0.2	0.0	+ 1.9	+ 3.6	+ 3.9
Yen	- 0.1	- 0.1	- 0.2	+ 0.2	+ 1.1

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NOTES

International Monetary Developments: The dollar lost only slight ground against European currencies yesterday, despite the announcement of a record West German trade surplus and a smaller US surplus than had been expected. Rising US interest rates and a general feeling that the dollar was undervalued in the last selling spree have helped keep the dollar well above the low mark of early July.

Syria: The speed-up of Soviet military deliveries over the past year, including new and sophisticated weapons systems, has brought increased numbers of Soviet technicians into Syria--250 this year, for a total of about 1,400. Damascus seems anxious to avoid exclusive reliance on Moscow, however. Thirty East German technicians--perhaps air defense specialists--arrived late last month, with about 50 more expected soon. Some 50 North Vietnamese military technicians are also scheduled to arrive in the near future, the first North Vietnamese advisers to be sent outside Indochina.

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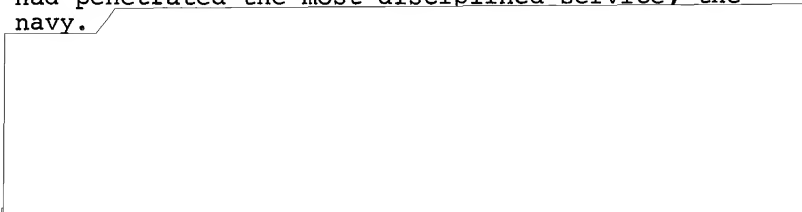
CHILE

Events in Chile have raised tempers to the boiling point, and President Allende again must handle a delicate challenge. An effective military coup does not yet appear to be firmly organized. Instead, it would seem that the various military services will attempt to bring unified military pressure on the President to restore public order and to moderate his government.

General Prats' resignation as defense minister and army chief marks a major change in the situation in Chile. For the past three years, elements that favored action against the Allende administration had been restrained as much by Prats' loyalty to the constitutional government--whatever its character--as by the deep divisions within and among the services. Now, more and more officers have concluded, almost against their will, that the Allende administration is bent on destroying the military institution and, indeed, constitutional government itself. Without Prats' restraining hand, they may pull together to thwart Allende's manipulation and exploitation of military loyalty.

Concern over the growing boldness of paramilitary workers' groups has been a major factor in convincing the military officers that they must assert opposition to government policies. Many officers were shocked by recent evidence that the far left had penetrated the most disciplined service, the navy.

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The long tradition of military isolation from politics has not kept officers from adopting political views, but neither has it trained them in political maneuvering. Their unity and resolve will be severely tested by actions by Allende to bluff or confuse them.

The President's own preference would be to protect his flank by appearing to go along with the military demand for more power and by reaching a modus vivendi with the opposition Christian Democrats.

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Allende, however, is increasingly pressed by the demands of his own Socialist Party and other extremists--and now even by the usually moderate Communists--to adopt a hard line to advance the Chilean revolution and destroy its opponents.

One government response to the developing military pressure is an implicit threat of reaction by leftist-led workers. The real size and the armed capability of these paramilitary groups is unknown even to their various sponsors--Communists, Socialists, and members of the Revolutionary Leftist Movement. Many government leaders doubt that the workers could face down a military challenge.

On the other hand, the factories and other areas controlled by the paramilitary and workers' groups straddle vital sections of major roads in and out of Santiago. The Chilean Army is inexperienced and ill equipped for riot control and half its enlisted manpower consists of short-term, largely untrained recruits. In addition, its relationship with the national police, the Carabineros, has traditionally been one of rivalry rather than cooperation. The Carabineros is a career force as large as the army, with extensive experience in civil disorders. Their cooperation would be essential for an effective military effort in any armed confrontation. Information is conflicting on the attitude of the Carabineros toward the Allende government.

The key to developments is Santiago, where army and Carabinero units are now on alert and being reinforced from other provinces. Any confrontation that occurs is most likely to begin there. Moreover, it is likely to fluctuate and drag on. In that event, other cities, most notably the port of Valparaiso and the industrial center of Concepcion, would become more important. Leftist extremists are particularly powerful in Concepcion, while the military commanders in both areas are strongly critical of the government. Most Chileans are strongly for or strongly against this administration, and real violence in Santiago would be reflected throughout the country.

The principal actors, military and civilian, appear to be still counting on political maneuver--bluffs, threats, and propositions. To a degree rare in Latin America, the bulk of the Chilean population abhors violence and few leaders feel confident that they have the backing to impose their will without touching off a civil war. Yet the prolonged tension has led to despair that maneuvering can alleviate Chile's problems. Leftist and rightist extremists, meanwhile, are doing their best to provoke confrontation. The forces in the middle appear to be edging toward the conviction that they may have to resort to force to prevent what they see as impending national disaster.

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